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SUBJECT: IMF, GDRC APPEAL TO DONORS FOR  
EMERGENCY ASSISTANCE

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(B) KINSHASA 918;  
(C) 07KINSHASA 1133

¶1. (SBU) Summary: Both the IMF and Government of the Democratic Republic of Congo (GDRC) have appealed to donors to provide emergency support as the DRC confronts a significant economic downturn as a result of the global financial crisis. During a briefing to donors on December 10, the visiting IMF Staff Mission described a worsening macroeconomic situation, including a \$500 million balance of payments gap and a \$250 million financing gap for ¶2009. The IMF hopes to provide emergency support to the DRC through its Exogenous Shocks Facility (ESF), but needs donors to bolster this assistance with additional funds. Prime Minister Muzito met with donors on December 11 to outline the GDRC's 2009 budget and development strategy and pitch a similar appeal for additional, immediate support. Without additional external financing, the DRC could face a financial crisis as early as the second quarter of ¶2009. End Summary.

#### IMF WARNS OF LOOMING FINANCIAL CRISIS

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¶2. (SBU) The IMF Staff Mission led by Brian Ames, visiting Kinshasa from December 10-20, briefed donors on December 10. The IMF last visited the DRC in September and returned in December, rather than their planned February time-frame, due to growing concerns over the impact of the global financial crisis on the DRC (ref A). Ames presented a deteriorating macroeconomic situation, including 2009 GDP growth in the 5 to 6 percent range (compared to earlier projections of over 11 percent), a \$500 million balance of payments gap, a financing gap of \$250 million, and deteriorating terms of trade. The IMF projects FDI to decline by 11 percent of GDP as a result of lower commodity export prices and tightened global credit. Ames warned that, absent the intervention of donors, the DRC could be facing a financial crisis. The IMF will brief donors again on December 19.

¶3. (SBU) Ames stated that the DRC was facing an "exogenous shock" as a result of the global financial crisis. Options for the GDRC to address the crisis in the short term are limited -- a reduction in spending, for example, would risk disruptions to basic social services. The IMF described the Exogenous Shocks Facility (ESF), for which the DRC is eligible, as a mechanism to respond quickly to the DRC's financing needs. Under the ESF, the DRC would be eligible for up to \$200 million (equivalent to 25 percent of its quota). While the ESF requires countries to commit to policies to address the shock, they do not need to have them implemented immediately. Ames stated that the DRC must, however, address previously noted concerns by the IMF regarding mis-reporting of emergency spending before the IMF would provide any new assistance. This was, according to Ames, fundamental for the IMF.

¶4. (SBU) To address concerns on emergency spending, the GDRC would need to show a positive track-record that emergency spending was in-line with established procedures. While generally a six-month track-record would be required, Ames stated that the IMF could be flexible and reduce this requirement to two or three months. Ames indicated a possible March time-frame for the ESF assistance to come before the IMF Board. The Sino-Congolese agreement (refs B and C) represented an additional possible sticking-point for ESF assistance. However, Ames stated that the GDRC, at the highest level, had changed its position regarding renegotiation of the agreement. Specifically, the GDRC had agreed to renegotiate the agreement immediately, rather than waiting until the completion of the feasibility study, scheduled for the end of March, 2009. This would include lifting of the sovereign guarantees and ensuring concessionality of the loans. For the ESF, the GDRC could provide the IMF a letter of intent that it would renegotiate the Chinese agreement in line with debt sustainability.

¶5. (SBU) Ames noted that the IMF could not respond alone to the crisis and called on other donors present to provide support. IMF staff have been in discussions with the USED at both the IMF and World Bank, as well as the French and Belgium governments on possible emergency support. The World Bank could reprogram \$100 to \$120 million in resources planned for specific sectors such as energy. However, the African Development Bank (ADB) has no mechanism to address exogenous shocks. Since ESF assistance would only cover the balance of payments gap (the IMF could not provide budget support in the absence of a formal IMF program), Ames appealed to donors to cover the remaining gap. A variety of mechanisms could be used, including line-item budget support.

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¶6. (SBU) Assuming that the GDRC can satisfactorily address IMF concerns in the Sino-Congolese agreement and on emergency spending procedures, Ames provided the following possible time-line for IMF assistance to the DRC: February/March-Article IV Consultations; March- Board reviews ESF assistance request; April-June (at the latest) -- Board reviews new PRGF. Under an optimistic scenario, with a new PRGF approved in April and a first review in September, the DRC could reach HIPC completion point in December 2009. Ames noted that this scenario would provide the GDRC with possibly two tranches of assistance through the PRGF in 2009. An additional \$250 million in external financing could also come from the signing agreement ("pas de port") negotiated as part of the Chinese agreement. (Note: The signing agreement was included in the GDRC's 2008 budget, but has still not been provided by the Chinese. End Note.) However, the most pressing financing needs will be in the first half of the calendar year, before IMF assistance would be available.

PRIME MINISTER ENGAGES DONORS, SEEKS SUPPORT  
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¶7. (SBU) Prime Minister Muzito met with donor country ambassadors on December 11 to discuss the current economic situation, the GDRC's 2009 budget, and donor coordination. The Prime Minister used the meeting to highlight the DRC's worrisome macroeconomic situation and seek budget support from donors. The Prime Minister opened his remarks by highlighting the impact of the global financial crisis on the DRC, including deteriorating terms of trade and lower international prices for the key DRC exports of copper, cobalt and diamonds. As a result, the DRC had weak international reserves levels, putting economic operators at risk. In response, the GDRC is taking actions to create a more favorable environment for investors, including adherence to the Organization for the Harmonization of Business Law in Africa (OHADA) and completion of the mining contract review process.

¶8. (SBU) The Prime Minister noted the importance of a new IMF program and debt relief through HIPC. To this end, the GDRC had decided to address IMF concerns over provisions in the Sino-Congolese agreement. However, additional, immediate resources are necessary, the Prime Minister stressed. He then asked for the

donors present to assist in providing support. Turning to the GDRC's 2009 budget, Muzito provided a review of past spending dating back to 2001, noting the positive trend in increasing revenues and spending through the most current budget. He lamented that even with the significant increase in spending in the DRC's 2009 budget (ref A), it remained small compared with spending levels of the DRC's neighbors, despite the DRC's much larger population. Spending for 2009 will focus on infrastructure, health, education, electricity, and water. However, spending levels remain low given the needs. The 2009 budget is based on the hypothesis of a new IMF program and HIPC debt relief, but also takes into account the global financial crisis. Thus, Muzito stated that the GDRC would reevaluate the underlying assumptions for revenues. Muzito also spoke at length about challenges facing the agricultural sector and noted GDRC investments to support increased agricultural production such as the procurement of 700 tractors.

¶9. (SBU) Muzito described steps the GDRC's had taken to improve aid coordination and effectiveness, acknowledging that there had been weaknesses. Under the GDRC's new structure, the Ministry of Foreign Affairs will lead on policy, the Ministry of International Cooperation would have lead responsibility for negotiating donor assistance, the Ministry of Plan would have lead responsibility for aid coordination, and the technical ministries would have lead responsibility for execution.

¶10. (SBU) Donor interventions included the French Ambassador (on behalf of the EU), CDA Steve Haykin for the United States, and the Resident Representative of the ADB, Mujomo Coulibaly (on behalf of the multilateral development banks). The Belgium, Italian and UK Ambassadors also provided remarks, though the EU donor countries had agreed that only France would intervene at the meeting.

¶11. (SBU) Comment: Donors in Kinshasa have grown increasingly concerned about a possible financial crisis in the DRC, particularly as the country continues to face a significant humanitarian situation in the east and enormous development challenges for the entire population. The meetings with the Prime Minister and IMF confirmed what donors have already begun internally discussing: the DRC needs additional external financing, and quickly. While there

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is no question the GDRC can and should take steps over the medium and longer term to ensure continued macroeconomic stability, the looming financial crisis is largely due to exogenous factors. The GDRC's willingness to renegotiate the Sino-Congolese agreement and reestablish a PRGF reflects positive developments and a new willingness to engage positively with traditional donors. However, as the IMF noted during its briefing, the GDRC is extremely limited in what actions it can take to address the immediate situation; thus, donors must fill the void. Brian Ames has privately told post that the IMF Board will not support ESF assistance for the DRC unless other donors commit to additional emergency support. Additional or reprogrammed USG assistance in response to the IMF's and Prime Minister's appeals would both help the GDRC address its immediate financing needs and smooth the way for emergency IMF assistance.

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